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April 21, 2008

AGENDA ITEM 9a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Annual Review
- II. PROGRAM:** Supplemental Income Plans
- III. RECOMMENDATION:** Information Item – Wilshire Opinion letter is shown in Attachment 1.

IV. ANALYSIS:

Background

The Supplemental Income Plans (SIP) offers three supplemental retirement income plans as complements to the CalPERS pension plan.

The **CalPERS 457 Plan** is a deferred compensation plan offered to local public agencies and school districts. As this is an employer sponsored plan, employers must adopt the Plan prior to their employees participating. This plan accepts employer and employee tax-deferred contributions.

The **CalPERS Supplemental Contributions Plan (SCP)** is an after-tax contributions plan where earnings accrue tax-deferred. To date, this Plan is offered to State employees only and accepts employee contributions only.

The **CalPERS Peace Officers and Fire Fighters Plan (POFF)** is offered to State Department of Corrections employees. For eligible employee groups, the State currently calculates and contributes 2 percent of the employees' salary into the Plan. This is an employer sponsored benefit only. There are no employee contributions allowed.

SIP Goals

As a complement to the CalPERS pension plan, the SIP goals are to:

- Administer self-sustaining supplemental income plans

- Maintain the same high quality customer service standards as expected by our stakeholders
- Provide an attractive employee benefit at no cost to employers
- Contribute meaningfully to members' retirement security

These principles will be accomplished by educating participants with information to allow them to make informed decisions about supplementing their retirement income and by offering a variety of high quality investment options at reasonable cost. Leveraging CalPERS retirement and investment expertise is critical to the success of these programs.

Calendar Year 2007

The SIP had an eventful year with administrative and investment management enhancements that included:

Recordkeeping & Administration Enhancements

In January, a new contract was signed with CitiStreet to continue recordkeeping services as the third party administrator and customer service. State Street Bank remains the custodian and investment manager for selected funds. With the new CitiStreet contract, the fees charged by CitiStreet have been lowered by approximately \$1 million a year.

SCP administration was moved to CitiStreet in a daily mark to market environment which is the industry standard. Participants now have access to a custom interactive website providing account balances and investment transactions.

An employer survey was completed to gauge the level of awareness and the image of the CalPERS 457 Plan with the local public agencies. Results from this survey were used to better communicate and adopt the plan to meet their customer service and product quality expectations.

Enhanced Investment Funds

Participants in the 457 Plan and the SCP were offered additional high quality funds as investment options in 2007. Fund enhancements include adding:

- Two new CalPERS managed equity index funds.
- Two CalPERS managed active fixed income funds.
- Two externally managed active large capitalization equity funds.
- Five externally managed target retirement date funds offering an automatically adjusting mix of investments which grows increasingly conservative as the participant nears retirement.

Fund performance is on the next page.

**SUPPLEMENTAL INCOME PLANS
PERFORMANCE SUMMARY REPORT - NET RETURNS (%)**

Periods Ending December 31, 2007	Periodic Returns (%)					Fund ITD	Inception Date	Fees*
	3 Months	6 Months	1 Year	Annualized 3 Years	Annualized 5 Years			
<u>CORE FUNDS</u>								
SSgA STABLE FIXED INCOME	1.0	2.1	4.3	4.1	4.0	4.7	02/01/95	0.51% **
Lehman Brothers Government 1-3 Year (benchmark)	2.3	4.9	7.1	4.3	3.2	5.4		
CalPERS TOTAL RETURN BOND	2.7	5.5				5.0	06/01/07	0.55%
Lehman Brothers Aggregate (benchmark)	3.0	5.9	7.0	4.6	4.4	5.6		
CalPERS TIPS SECURITIES	4.5	9.1				8.9	06/01/07	0.55%
Lehman Brothers US TIPS (benchmark)	5.0	9.7	11.6	4.9	6.3	9.6		
CalPERS S&P 500 EQUITY INDEX	-3.4	-1.5	5.4	8.4	12.5	10.4	02/01/95	0.35%
S&P 500 (benchmark)	-3.3	-1.4	5.5	8.6	12.8	11.1		
ALLIANCE BERNSTEIN LARGE CAP VALUE	-5.0	-3.8				-6.0	06/01/07	0.90%
Russell 1000 Value (benchmark)	-5.8	-6.0	-0.2	9.3	14.6	-8.2		
TURNER LARGE CAP GROWTH	4.3	11.6				10.8	06/01/07	0.90%
Russell 1000 Growth (benchmark)	-0.8	3.4	11.8	8.7	12.1	1.9		
CalPERS SMALL/MID EQUITY INDEX	-4.3	-6.8				-8.6	06/01/07	0.40%
Russell 2500 (benchmark)	-4.3	-6.7	1.4	8.4	17.0	-8.4		
CalPERS INTERNATIONAL INDEX	-1.4	1.4				1.7	06/01/07	0.40%
FTSE Developed World Index ex US (benchmark)	-1.1	1.8	13.9	18.5	23.1	2.1		
SSgA INTERNATIONAL ALPHA SELECT	-3.3	-2.0				-2.0	06/01/07	0.94% **
MSCI EAFE (benchmark)	-1.8	0.4	11.2	16.8	21.6	0.5		
<u>TARGET RETIREMENT FUNDS</u>								
SSgA TARGET RETIREMENT INCOME	0.8	3.1				2.5	06/01/07	0.64% **
SSgA Income Custom Index (benchmark)	0.9	3.4	6.4			2.9		
SSgA TARGET RETIREMENT 2010	0.3	3.1				2.1	06/01/07	0.64% **
SSgA 2010 Custom Index (benchmark)	0.5	3.4	7.3			2.5		
SSgA TARGET RETIREMENT 2020	-0.8	1.6				0.5	06/01/07	0.64% **
SSgA 2020 Custom Index (benchmark)	-0.7	2.0	8.0			1.0		
SSgA TARGET RETIREMENT 2030	-1.7	0.4				-0.7	06/01/07	0.64% **
SSgA 2030 Custom Index (benchmark)	-1.5	0.8	7.9			-0.2		
SSgA TARGET RETIREMENT 2040	-2.0	0.0				-1.1	06/01/07	0.64% **
SSgA 2040 Custom Index (benchmark)	-1.8	0.3	8.3			-0.7		
<u>RISK-BASED FUNDS</u>								
SSgA CONSERVATIVE ASSET ALLOCATION	0.2	2.3	5.6	5.9	7.8	6.7	02/01/95	0.64% **
SSgA Income and Growth Index (benchmark)	0.6	3.0	6.7	6.8	8.5	8.7		
SSgA MODERATE ASSET ALLOCATION	-1.0	0.9	5.8	7.5	10.4	7.8	04/01/95	0.64% **
SSgA Balanced Growth Index (benchmark)	-0.6	1.5	6.6	8.0	10.8	9.2		
SSgA AGGRESSIVE ASSET ALLOCATION	-2.2	-0.6	5.6	8.6	12.4	7.0	04/01/95	0.64% **
SSgA Growth Index (benchmark)	-1.8	0.1	6.5	9.3	13.0	9.8		
SUPPLEMENTAL CONTRIBUTION PLAN (SCP)	-0.8	1.8	7.9	9.6	12.3	3.8	04/01/00	0.55%
Supplemental Policy Benchmark (benchmark)	-1.1	1.5	7.5	9.1	12.2	3.8		
POLICE OFFICER & FIREFIGHTERS (POFF)	-1.1	0.6	5.3	7.2	10.0	3.8	07/01/99	1.18% **
SSgA Balanced Growth Index (benchmark)	-0.6	1.5	6.6	8.0	10.8	5.2		

^{*}Anaheim 457 Plan and SCP fees may vary by fund.

^{**}In addition, the Fund may be charged an annual custody fee and such other fees and expenses as are permitted by the Declaration of Trust. Returns shown are net of investment management and plan level expenses. Benchmarks are shown gross of any fees.

Lower Participant Fees

For the 457 Plan, participant fees were reduced by an average of 10 basis points beginning in May 2007. For the SCP plan, the fund line-up was expanded to include the same low-cost funds as the 457 Plan.

New Branding

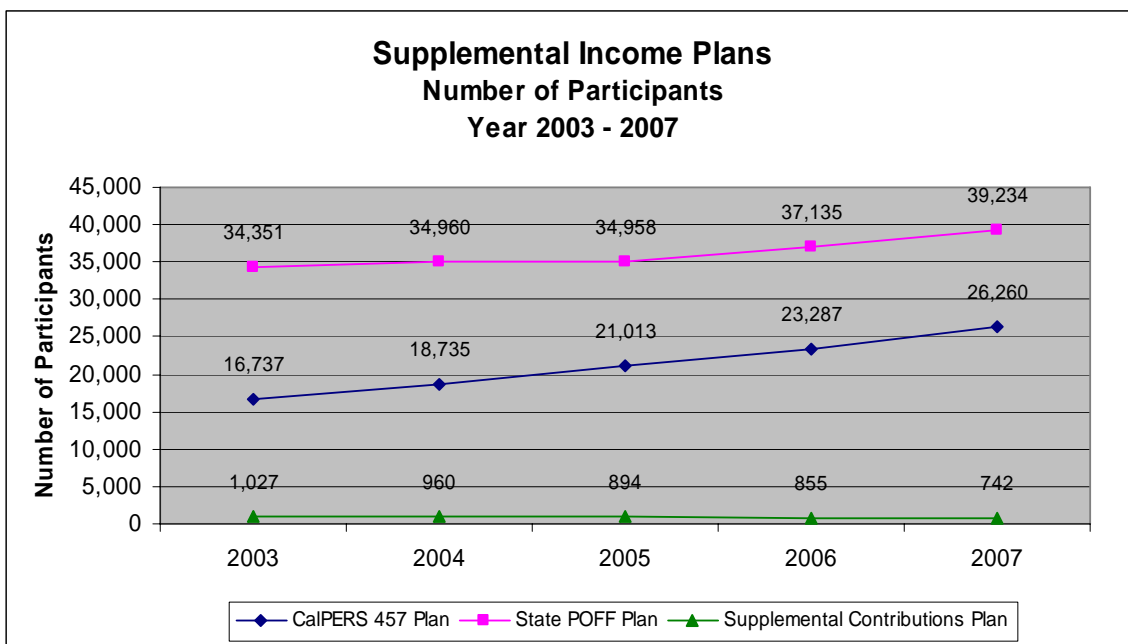
Working with the Public Affairs Office and Citistreet, the SIP implemented a new branding and communication campaign for employers and participants. These communication messages were derived based on the employer survey.

Enhanced Customer Service

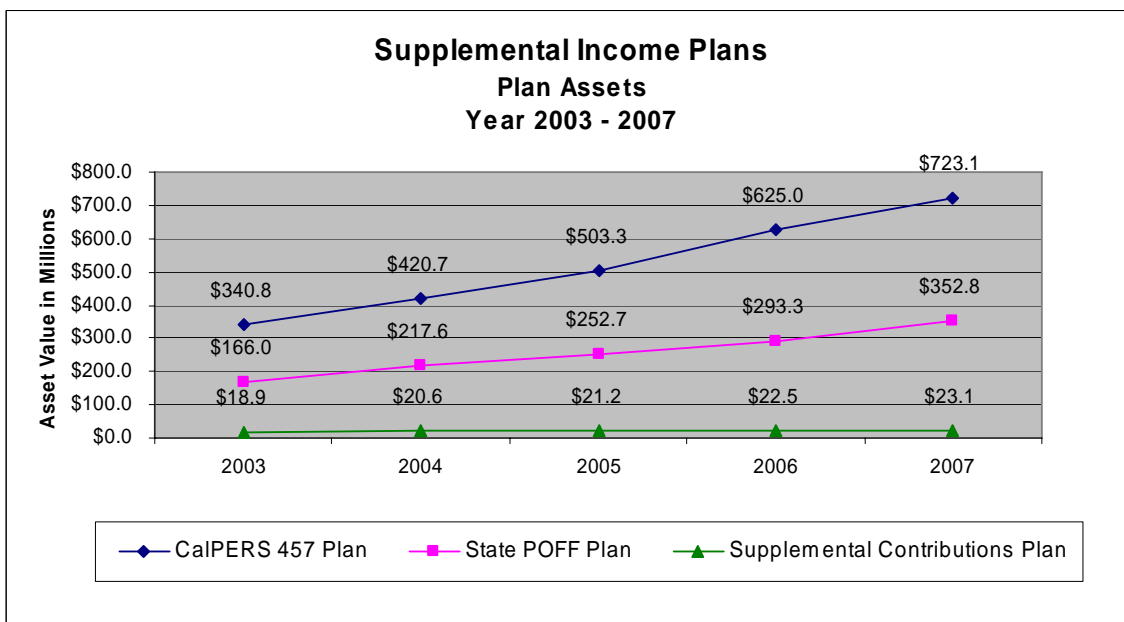
Four new customer service representatives were added for on-site employer presentations and participant meetings. The 2007 survey said employers highly value customer service at the work site for employee education and enrollment.

Plan Growth

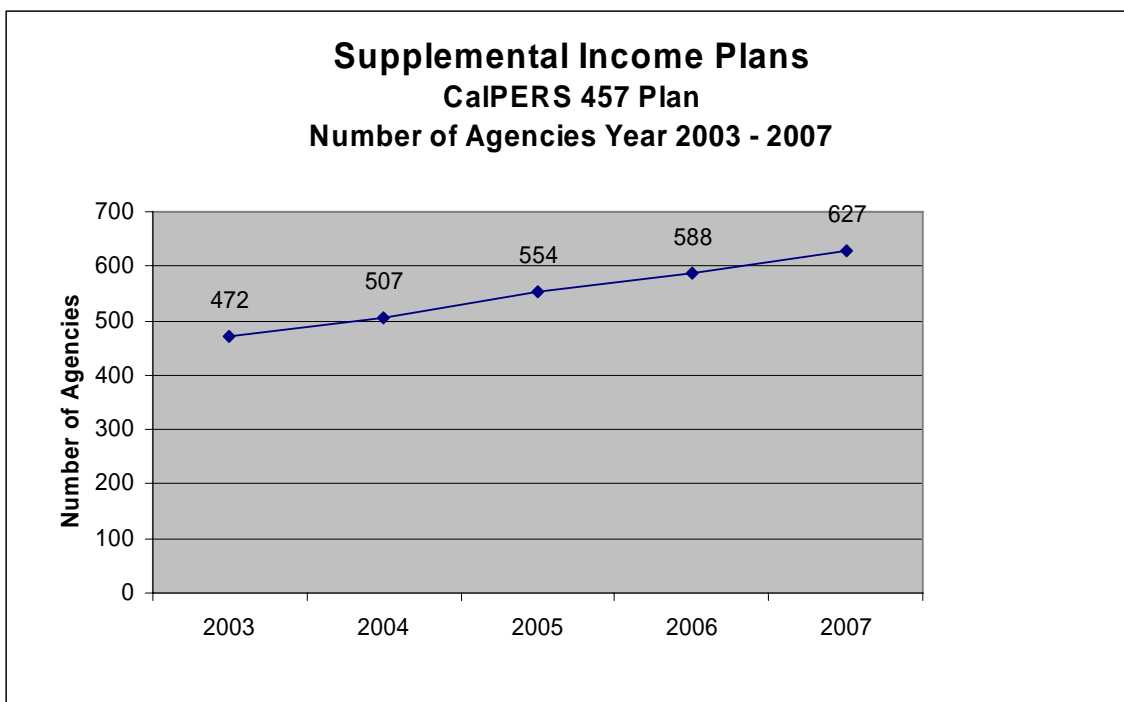
Plan participation has continued to grow for the 457 Plan and the POFF Plan but declined for the SCP as shown below.



Plan assets have continued to grow for the all Plans as shown on the next page.



Agencies have continued to adopt the 457 Plan with 39 new agencies in 2007. (Note, the POFF and SCP are not available to local agencies, only the State.)



Calendar year 2008

The SIP is planning another eventful year with additional administrative and investment fund enhancements. The enhancements include:

Enhanced Investment Options

In June 2008, staff will present to the Investment Committee the proposed investment line-up for implementation in the fall of 2008. The changes will include the addition of the CalPERS target retirement date and risk-based funds as well as the addition of externally managed funds.

To develop the target retirement date and risk-based funds, Investment Office staff has selected and begun work with Callan Associates on the development of the custom CalPERS funds. The Actuarial Office is contributing staff and expertise on CalPERS member demographic data for this customization. The policy for these funds will be brought to the Investment Policy Subcommittee in June 2008.

Branding

Program staff will continue working with CitiStreet and the Public Affairs Office to communicate the enhanced funds and services in 2008.

Enhanced Customer Service

The POFF Plan now has an informational website with interactive features being developed for rollout in mid 2008. All Plans will benefit from the addition of two additional SIP management positions approved by the Board to coordinate customer service activities between CalPERS and CitiStreet.

Administration

CitiStreet is up for sale. As the consequences of this sale will not be known until the transaction is complete, staff is anticipating various outcomes and is planning action plans for each. In the interim, staff will continue to monitor the situation closely and report to the Board on any developments.

New Products

At the January 2008 Board off site, staff presented various products as potential CalPERS offerings in addition to the existing plans. At the Board's request, staff will engage a research firm to gauge employers and employee interest in additional CalPERS products and return to the Board with a recommendation.

Agency Marketing Strategies

After reviewing each plan and its marketing environment, a team consisting of SIP, Public Affairs and CitiStreet have come up with strategies to focus communication efforts to best grow the plans. As the 457 Plan is an employer sponsored plan, communications must begin with the employer to adopt the plan.

Marketing the CalPERS 457 Plan to smaller agencies (equal or less than 100 employees) will focus on communicating and highlighting plan benefits for employees. The communications strategy for smaller agencies will include the following components:

1. Focus on agencies that currently contract for the CalPERS defined benefit pension plan.
2. Utilize all CalPERS resources for agency communications.
This includes:
 - The Customer Education Services Division through their interactions with employers and employees.
 - Actuarial & Employer Services Division with the ebuletin and Employer Newsletter.
 - Public Affairs Office to help with brand awareness.
 - Leverage agency relationships with the CalPERS Constituent Relations Office.
3. Maintain competitive administrative and investment management fees.
4. Offer attractive investment options with an emphasis on CalPERS managed funds and CalPERS selected externally managed funds.
5. Participate in and speak at employer attended conferences.
6. Continue enhancement of the CalPERS and CitiStreet Account Management service team and communications.
7. Continue agency outreach through participation at the CalPERS Educational Forum.

Marketing to larger public agencies is a longer time horizon effort involving customized solutions with an unbundled product. An unbundled product gives the local agency authority over all aspects of the plan including administrative options and investment funds options. Frequently, larger agencies hire consultants to select administrators and investment funds using formal Request for Proposals (RFP). To be successful in this market environment, CalPERS must:

1. Have a minimum of a three-year performance track record for CalPERS managed funds.
2. Allow flexible investment options with a combination of CalPERS funds and mutual funds, as requested by the agency and consultant.

3. Allow tiered pricing to better compete with the pricing structures of larger agencies.
4. Allow customized plan alternatives at the selection of the decision-making body.
5. Offer customized Account Management services to meet the agency and participant needs.
6. Develop the ability to respond to RFPs in-house, rather than rely on CitiStreet.
7. Develop relationships and communication strategies with contracted agency consultants to explain our plans and our investment offerings.
8. Allow for the collection of fees from participants to reimburse local agencies for plan expenses such as consultant fees.

As the new investment options need time to accrue three-year performance track records, CalPERS staff is continuing to develop its customized marketing plan for larger agencies.

Participant Communication Strategies

For the three Supplemental Income Plans, the participant communication and educational strategies are similar, focusing on:

1. An all inclusive enrollment package.
2. CalPERS-wide representation from the Regional Office staff at member educational trainings.
3. Easy to use forms and educational materials to allow participants to make informed decisions.
4. Fund choices which are simple and easy to understand.
5. Superior customer service to combine retirement planning with the participants' defined benefit and defined contribution plans.
6. Broad web-based communications from MyCalPERS to the Plans' customized websites.

Conclusion

During 2007, the SIP has improved services and added higher quality investment options while reducing fees. Staff will report back to the Investment Committee in June with additional improvements for 2008.

V. STRATEGIC PLAN:

This agenda's initiatives address multiple CalPERS Strategic Plan Goals including:

- Goal (VI) to Administer pension benefit services in a customer oriented and cost effective manner;
- Goal (VII) to Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement futures; and
- Goal (IX) to Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

The SIP is a self sustaining program funded by participant fees. Since 2007, fees have been reduced for participants while services have increased. This is an informational item and no costs are associated with this item.

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